



## Activation Policy in Denmark

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# **Activation Policy in Denmark**

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### 1. Characteristics of the Danish labour market and employment policy

Denmark has drawn considerable international attention in recent years. The flashing of the highest employment rate in the EU, the low level of unemployment and an overall positive macroeconomic performance has made Denmark stand out as a best practice for Europe. Furthermore Denmark does show some interesting traits, when it comes to the country's combination of the well-known basic building blocs of a Nordic welfare state with some characteristics of more liberal market economies.

Table 1 presents an overview of some of the main indicators of the performance of the Danish labour market compared to the average situation in the EU.

*Table 1: Key indicators for the Danish labour market and for EU-27, 1Q 2009*

| Indicator                                    | Denmark       |      |       | EU-27         |
|--|---------------|------|-------|---------------|
|  | Men and women | Men  | Women | Men and women |
| Activity rate, pct.                          | 80.5          | 83.9 | 77.0  | 70.8          |
| Employment rate, pct.                        | 76.2          | 78.9 | 73.5  | 64.6          |
| Part-time employment, pct.                   | 26.1          | 15.6 | 37.8  | 18.6          |
| Unemployment rate (July 2009)                | 5.9           | 6.4  | 5.4   | 9.0           |
| Average hours worked per week                | 34.5          | 36.7 | 31.8  | 37.0          |
| Share with temporary contracts, pct.         | 8.6           | 8.4  | 8.7   | 12.5          |
| Share of self-employed, pct. (2007)          | 6.4           | 8.7  | 3.7   | 16.0          |
| Started job with the last three months, pct. | 6.1           | 5.5  | 6.8   | 3.2           |
| Spending on ALMP, percent of GDP(2007)       | 1.08          |      |       | 0.47          |

Source: Eurostat: *Labour Market Latest Trends – 1st Quarter of 2009*, Data in Focus no. 35 – 2009.

Note: For the share of self-employed, the source is *Employment in Europe 2008*, statistical annex. For ALMP-expenditure the source is Eurostat: *Labour Market Policies – expenditure and participants 2007*, Data in Focus 23/2009

As already mentioned both the Danish activity rate and the employment rate are the highest in Europe. In July 2009 the Danish unemployment rate was 5.9 percent – an increase from 2.3 in July of the previous year, but still well below the EU-27 average.

In comparison with the average situation in the EU, atypical employment in the shape of self-employment or employment with a temporary contract is at a rather low level in Denmark. Thus the share of self-employed is less than half of the share of the EU in general, probably to some degree as a reflection of the relatively low employment in agriculture and other primary sectors. Also the share of persons employed with a temporary contract is low in Denmark, almost half the EU-level. One explanation for this is the relatively low level of job protection for workers with an open-ended contract, which makes it less relevant for employers to hire workers on a temporary basis.

Only with respect to the share of employment in part-time work, does Denmark come close to the EU-average. Since part-time is mainly performed by women, this should be seen on relation to the high female employment rate in Denmark. This type of employment is in fact perceived to be very common and standard in Denmark, albeit the working hours of course are lesser than fulltime workers.

A further observation from table 1 is the high share of employees, which has been employed for less than 3 months. The Danish share of newly hired of 6.1 percent is the second highest in the EU and taken as one of the indicators of the high level of numerical flexibility found on the Danish labour market.

Finally, the table shows the relatively high level of expenditure on active labour market policy in Denmark. In 2007 the share of GDP of ALMP was the second highest in the EU-27.

A further characteristic of the Danish labour market is the high rate of organisation, where between 70 and 80 percent of all wage earners are members of a trade union. Similarly the vast majority of employers are organised in a few large employers organisations. Wages and working conditions are therefore mainly regulated by collective agreements.

In this paper focus will be on income support for the unemployed and on Danish active labour market policy. For expositions discussing the Danish labour market model as a whole, reference can be made to Madsen (2006, 2007).

## **2. The development of Danish labour market policy since the 1990s**

Both when it comes to income support for the unemployed and to active labour market policy, the Danish organisation of labour market policies is based on a fundamental division between those unemployed that are members on an unemployment insurance fund and those, who are uninsured. In case of unemployment the latter will have to apply for means-tested social assistance (cash benefits) that is administered and partly financed by the municipalities. The vast majority (79 percent in 2007) of the unemployed are members of an unemployment insurance fund.

While the two-tier character of both active and passive measures has been and still is an important feature of Danish labour market policy, the system has experienced a number of reforms since the early 1990s having as their main characteristics:

- The introduction of a two-period benefit system for the insured unemployed with an initial “passive” and a subsequent “activation” period. Over the years, the passive period has been gradually shortened from initially four years to the present nine months for older unemployed and six months for unemployed aged less than 30 years. The total duration of unemployed benefits is now four years, thus implying that the “activation period” is now a little more than three years. In the early 1990s the total duration of benefits was up to nine years.
- A strong emphasis on “rights and duties” for the individual unemployed, who has the right to get an individual “job-plan” spelling out the activities to be undertaken to get back to employment, but also the duty to take part in the different active labour market programmes.
- A decentralisation of policy implementation to regional and local authorities, which were to some degree empowered to adjust programme design to fit local needs
- The removal of the connection between job-training and the unemployment benefit system implying that any employment with a wage-subsidy no longer prolongs the duration of the period, where an unemployed is eligible for unemployment benefits

As described in more detail below, the two systems for the insured and the non-insured unemployed have from 2007 been integrated in new local “job-centres”. This integration was fully implemented when the state-run public employment service in August 2009 was formally laid down. However, the legal distinction between the insured and the non-insured unemployed remains, both when it comes to participation in active labour market programmes and to income support during unemployment. Thus the insured unemployed still get their income support from the unemployment insurance funds, while the non-insured receive cash benefits from the municipalities.

### **3. Income support for the unemployed**

The Danish system of unemployment insurance is based on the so-called Ghent-system (Clasen & Viebrock, 2008). It consists of 31 state recognized unemployment insurance funds. Four of them are unemployment funds for both employees and self-employed persons. One unemployment insurance fund only admits self-employed persons as members. When a person moves from one unemployment insurance fund to another, either due to a shift in occupation or because s/he decides to do so, the right to unemployment benefits is transferred at the same time.

Most of the unemployment insurance funds are affiliated with one or more trade unions, which is often taken as an explanation of the high union density on the Danish labour market. While membership of an unemployment insurance fund is independent of being a member of a trade union, most workers will conceive the membership of the trade union and the affiliated unemployment insurance fund as a package. This is probably due to the long historical bonds between the two kinds of institutions and to the fact that trade unions do little to advertise the formal difference between the two sorts of membership. Also, of course, membership of a trade union offers some advantages, which are unrelated to receiving unemployment benefits like support in local wage negotiations and in conflicts with the employer.

The present version of the system for income support for the unemployed dates back to the last large reform of the unemployment benefit system in 1970, where the state took over the responsibility for financing the extra costs of unemployment benefits that were caused by

increases in unemployment (the principle of public financing “at the margin”). The members of the unemployment insurance funds will therefore only be obliged to pay a fixed membership contribution, independent of the actual level of unemployment.

This mechanism for financing unemployment insurance implies that the share of public funding depends on the total number of unemployed. In periods of high unemployment as in the early 1990s, the Government’s share rises to 80 percent, while it falls to less than 50 percent during economic upswings.

Apart from those having exhausted their right to unemployment benefits, the group of non-insured consists of those being no member of an insurance fund in the first place. This group of people consists of those who voluntarily choose not to become a member of the insurance funds, or those who do not meet the membership conditions (cf. the list of criteria presented below). This group of unemployed must apply for cash-benefits administered by local government (the municipalities). As explained in more detail below, cash benefits are means-tested and the amount depends on the family-situation of the unemployed.

#### *Membership conditions*

Membership of an unemployment insurance fund is voluntary. Members have to fulfil the following criteria:

- A member must stay and reside in Denmark. However, departures are made from this rule if the person resides in another EEA country.
- They must be between 18 and 63 years of age, when they join the unemployment insurance fund. They must have employment as an employee or as a self-employed person or assisting spouse in a company owned by a self-employed.
- A person can also be admitted as a member of an unemployment insurance fund if the person has completed a vocational training course of at least 18 months' duration when you apply for membership not later than 2 weeks after completion of the training course.

Both full-time and part-time employees can become members of an unemployment insurance fund. Part-time insurance is an option for persons working less than 30 hours per week. Both membership contribution and unemployment benefits are lower for this group. Thus benefits cannot be higher than two-thirds of the benefits for a full-time insured person.

#### *Membership contributions and benefits*

The membership contribution amounts to:

- A flat-rate compulsory contribution to the unemployment insurance, which is the same for all members and in 2009 amounts to 3,480 DKK pr year (467 Euro<sup>1</sup>)
- An administrative fee, which varies (considerably) between the individual unemployment insurance funds
- A voluntary early retirement contribution for the Voluntary Early Retirement Scheme. The yearly retirement contribution in 2009 amounted to DKK 5,076 (681 Euro) for full-time insured members.

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<sup>1</sup> Due to Denmark’s membership of the European Exchange Rate Mechanism (ERM) the Danish currency is stable at the rate of 7.45 DKK to 1 Euro. This rate is applied in all currency conversions in the paper.

All membership contributions are tax deductible, which implies that the net cost to the member is about three quarter of the gross cost.

To be entitled to unemployment benefits, the unemployed must fulfil the following conditions:

- Have been a member of an unemployment insurance fund for at least one year
- For persons insured on a full-time basis, the employment requirement means that they must have had employment to such an extent that it altogether corresponds to employment during the full, normal working hours of the trade or profession for a minimum of 52 weeks within the past 3 years. If the full, normal working hours are 37 hours a week, the employment requirement for full-time insured members will amount to a total of 1,924 hours of work within the past 3 years.

Furthermore the unemployed must look actively for work and is subject to the rules and regulations of active labour market policy (cf. below). In principle an unemployed person, who has been unemployed for more than 3 months, must accept any job offered by the PES that the person could perform. By example an unemployed academic must willing to work as a postman. However, in practice the jobcentres are not very strict implementing this rule, because of the expected lack of motivation of the unemployed if actually employed in the job.

Taking part in labour market training or being employed with a wage subsidy will not make the unemployed eligible for an extension of the benefit period. The benefit rate is individual and depends on the size of the previous earned income. Unemployment benefits can, at a maximum, amount to 90 percent of previous earnings. The maximum benefit rate in 2009 is 725 DKK (97 Euro) per day for full-time insured members. Unemployment benefits are paid out for 5 days a week. The maximum yearly benefit is therefore 188,500 DKK (25,300 Euro). Special rates apply for persons, who have just graduated from a vocational education without having a work record.

Once being eligible for unemployment benefits, an unemployed person may collect them for a total period of four years, if s/he follows the directions concerning active job seeking and participation in active labour market programmes. After the end of the four-year period, the unemployed loses the right to unemployment benefits and will have to apply for cash benefits as an "un-insured" unemployed, cf. below. The right to benefits is also automatically lost at the age of 65 years, where the person will qualify for old-age pension.

Sanctions are imposed by the funds on individual members that receive unemployment benefits without being eligible (for instance if they are not available for work or do not actively look for work). The standard sanction is withdrawal of benefits for a shorter period of time. Suspension can be for one week and up to 26 weeks. For 2006, the statistics of the Directorate of Labour showed that approx. 13,800 persons had their benefits suspended. Of those 3,200 were sanctioned with a suspension for more than 3 weeks. The number has been relatively stable over the last years and can be compared to an annual number of cases handled by the jobcentres of about 980,000 (Arbejdsdirektoratet 2007a:6).

#### *The non-insured unemployed*

Apart from those having exhausted their right to unemployment benefits, the group of "non-insured" unemployed consist of those unemployed, which do not fulfil the criteria for

becoming eligible to unemployment benefits in the first place (cf. the list of criteria presented above). Thus group of unemployed must apply for cash benefits administered by local government (the municipalities). These benefits are thus considered as parts of social policy and regulated by a separate law under the supervision of the Ministry of Employment. Financing is shared between national Government and the municipalities.

Cash benefits are means-tested and the amount depends on the family-situation of the unemployed. By example a person aged 25 and more and having children will in 2009 receive 151,500 DKK per year (20,300 Euro), while a young person aged 24 and less will receive 73,500 DKK per year (9,900 Euro). Like unemployment benefits, cash benefits are taxable income. The duration of cash-benefits is not limited, but again the person will have to accept the offers from the municipality to participate in active programmes. If not, cash-benefits may be reduced or abolished all together. In 2005 a total of 2,700 unemployed recipients of cash benefits were sanctioned. This can be compared to an average number of unemployed recipients of cash benefits in 2005 of about 55,000 persons (Arbejdsdirektoratet, 2007b:6).

#### *Replacement rates*

As presented in the description of the calculation of unemployment benefits, they amount to 90 percent of previous earnings (normally calculated over a 3 month's period before becoming unemployed). There is a maximum amount, which implies that the gross compensation rates declines rapidly with previous income, when the income reaches a limit of about 209,000 DKK (27,900 Euro) per year. To give an impression of the groups actually experiencing the different levels of gross compensation one can mention that a wage earner in the private sector at the lowest income level would get about 169,000 DKK (22,700 Euro) excl. pension contributions per year in 2007, while an average salesperson would get 224,000 DKK (30,100 Euro) per year. A highly skilled white-collar worker would earn 454,000 DKK (60,900 Euro) per year (Dansk Arbejdsgiverforening, 2008, table 5.29).

OECD calculates net compensation rates for different family types and income levels. As it is evident from figure 1 – and as a consequence of the ceiling on the UI benefit - wage earners earning 2/3 of the average worker (AW) experiences a significantly higher rate of compensation than those earning 150 percent of the average worker. Also, the family situation plays a (limited) role, which is not due to the UI-insurance system, but related to other benefits (like housing benefits), which are included in the OECD-calculations.



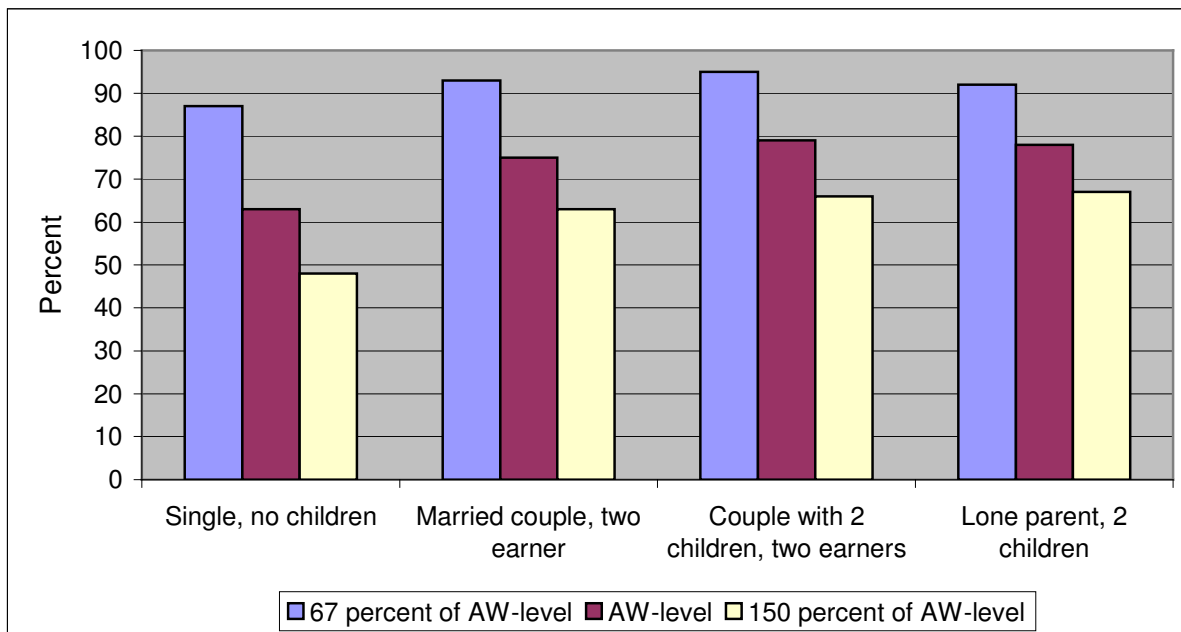


Figure 1: Net replacement rates for three income levels and four family types during the first month of unemployment, 2005. Source: OECD (2007), table 3.1. Note: AW stands for Average Worker.

Over the last decades there has been a tendency for the compensation rates to decline, which has been the cause of some debate (LO, 2006). The main reason for the decline is a special and rather complicated system for indexing the development of unemployment benefits (and other transfer incomes) to the increase in average wages. The main element of the indexation involves regulating unemployment benefits with the percentage increase in yearly wages (excluding pensions and paid absence) two years before with a deduction of 0.3 percentage points. This deduction is used to finance targeted measures for special groups among the unemployed and other “weak groups”.

Furthermore the introduction of collective pension schemes among blue-collar workers has led to a decline in the compensation rates, because contributions to such schemes are not included in the calculation of unemployment benefits. As a result, the compensations rates (including pension contributions) have gradually declined since 1982. On average the reduction amount to about 20 percentage points.

Finally one should mention that a small market for supplementary unemployment insurance has developed in recent years. These schemes are provided by private insurance companies on an actuarial basis and often marketed by trade unions as a service to their members. However, due to the high costs and limited benefits offered by such schemes, the number of persons taking them is rather small. In 2004 it was estimated that they covered about 50,000 persons, which can be compared to the 2.1 million members of the traditional unemployment insurance funds (Forsikring & Pension, 2004:14).

#### **4. Active labour market policy**

As mentioned above, an important feature of the present system of labour market policy is its two-tier nature, which follows the dividing lines in the unemployment insurance system. At the individual level, the dividing line is therefore between those unemployed, who are members of an unemployment insurance fund, and those who are not and therefore eligible for means-tested social welfare.

In 2007 the so-called “Structural Reform” implied major changes of the Danish public sector. The number of municipalities was reduced from 271 to 98. The 14 labour market regions (each headed by a director and a tripartite council) were replaced by four labour market regions – each still with a tripartite council. The councils however have lesser responsibilities than before and – most importantly – no longer have the direct control over the allocation of funds for active measures. The reform thus implies two important changes:

- The role of local government in implementation of labour market policy was increase
- The influence of the social partners diminished (probably as the outcome of some resistance from the present Conservative-Liberal Government and the Ministry of Employment towards the more powerful role of the social partners under the previous system)

At the level of the municipalities, the reform implied the creation of new jobcentres – one for each municipality. The jobcentres are responsible for both the insured and the uninsured unemployed and thus combine the tasks, which were previously solved by the social assistance branch of the municipalities and the public employment service. However, apart from 14 pilot job-centres, the formal legal responsibility for the unemployed is still divided between a state-branch and a municipality-branch of each jobcentre. The model is thus a hybrid between a one-tier and a two-tier system.

The responsibility for the payment of benefits to the unemployed is still divided between the unemployment insurance funds and the social security office of the municipalities.

Table 2 gives an overview of the tasks and responsibilities of the different actors in the employment system.

*Table 2: Administrative and corporatist bodies at national, regional and local level after the reform of 2007 and the abolishment of the state Public Employment Service in August 2009*

| Level    | Administrative bodies                      |  | Corporatist bodies          |  |
|----------|--|--|-----------------------------|--|
|          | Name                                       | Main responsibility  | Name                        | Main responsibility  |
| National | National Labour Market Authority           | Overall managing of active employment policy   | National employment council | Advisory body to the Minister of Employment in all matters related to labour market policy |
|          | Labour Directorate                         | Supervising the unemployment insurance funds and the municipalities' administration of cash benefits |                             |  |
| Regional | Employment Region                          | Supervising the performance of the local jobcentres  | Regional employment council | Advising the regional labour market director. Monitoring regional labour markets.          |
| Local    | Jobcentres                                 | Employment services to insured and non-insured unemployed  | Local employment council    | Advising the municipality and the local jobcentre  |
|          | Social security office of the municipality | Payment of cash benefits to non insured unemployed   |                             |  |
|          | Unemployment insurance fund                | Payment of unemployment benefits to unemployed and control of their availability for work            |                             |  |

#### *Programmes and participants*

As shown in figure 2, active programmes cover about 125,000 full-time persons per year, which can be compared to a workforce of about 2.9 million persons. This figure includes participants in the so-called flexi-jobs, which are jobs with a permanent wage subsidy for persons with lastingly reduced work-capacity. Their number has been rapidly rising and in 2008 amounted to 49,500 full-time persons.

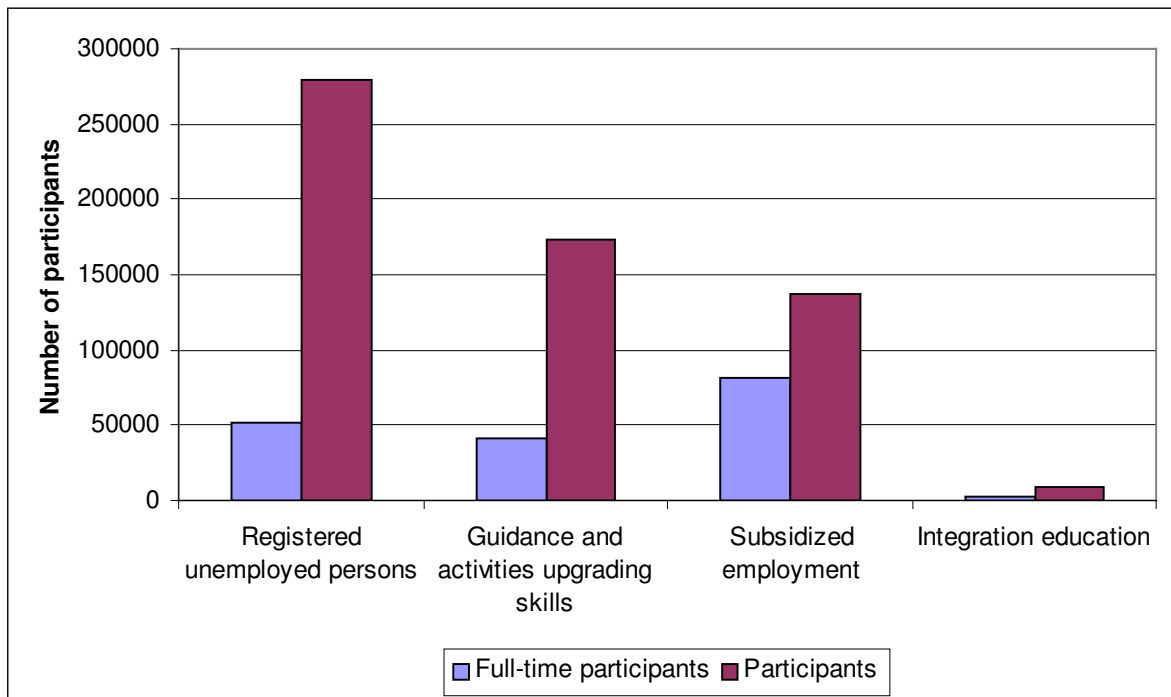


Figure 2: Number of participants (full-time equivalents and actual number) in active labour market policy measures, 2008. Source: Databanks of Statistics Denmark.

The figure has information about the main programmes of Danish ALMP:

- Guidance (including job search activities) and upgrading of skills covers a wide range of education and labour market training with duration up to one year
- Subsidized employment includes a variety of measures where a wage subsidy is paid to the employer. They range from short-term traineeships to permanent wage subsidies paid under the flexi-jobs-scheme
- Integration education consists of programmes targeted at immigrants

The number of registered unemployed has been inserted for reference. Mainly as a reflection of the improved conditions on the Danish labour market the number of participants in ALMP has been falling in recent years. At the same time – and reflecting a deliberate policy shift of the present government – more emphasis has been put on job training with private employers and on counselling under the heading “work-first”. Lower priority is given to educational measures. Also targeted measures have grown in importance due to the increased emphasis on the integration of immigrants and descendants.

## 5. Income support and activation from the perspective of the individual

In the previous two sections, the Danish system of income support for and activation of the unemployed has been described from a systems-perspective. Now we turn to the perspective of the individual. How will different types of persons experience the system, once they become unemployed? Three different types of individuals will be in focus:

- Long-term unemployed adults displaced by industrial restructuring
- Unemployed young persons
- Lone mothers with small children

## **5.1 The situation of a long-term unemployed adult**

### *An insured unemployed*

When an insured individual (a member of an unemployment insurance fund) becomes unemployed, he or she must from the first day of unemployment register either at the local jobcentre or at the local office of the unemployment insurance fund. This can be done via the Internet, if so wished.

Within the three weeks of unemployment, the unemployed must make a CV describing his/hers qualifications, work experience and the field of work that he/she is interested in. This CV is entered into a nation-wide “job-bank” on the Internet (operated by the National Labour Market Authority). The unemployed person can get assistance in filling out the CV from the jobcentre or the unemployment insurance fund.

The unemployed must every week enter the “job-bank” and confirm that he/she is still actively looking for work. This is done via the Internet.

After one month of unemployment, the unemployed has to have an interview at the unemployment insurance fund, where the CV is discussed along with the possible employment options for the unemployed person, who will be given advice with respect to job-search and maybe also get information about specific jobs that are available. The unemployed is informed that he/she must apply for at least four jobs per week in order to be “on the safe side”, when it comes to be considered as an active job-seeker, which is again a condition for keeping the right to unemployment benefits.

After the first interview, the unemployed persons will have to have interviews with the both the unemployment insurance fund and the jobcentre (or one of its partners) every three months. The focus of the interview with the unemployment insurance fund will be to test the availability for work of the unemployed, while the interview with the job-centre is more focused on the employment options of the unemployed person. In practice there may be some overlap in the focus of the two interviews due to the fact that the unemployment insurance funds also to an increasing degree are proving guidance with respect to job search.

After nine months of unemployment, the unemployed person is considered a “long-term” unemployed and will therefore be subject to mandatory activation.<sup>2</sup> The content hereof is decided by the jobcentre after an interview with the unemployed person. The activation to be undertaken is described in a so-called job-plan, which is signed by the jobcentre and the unemployed person. The active measures will have the form of job-training, employment with a temporary wage-subsidy, further guidance or upgrading of skills (cf. the overview of active measures in section 4 above).

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<sup>2</sup> For persons aged less than 30 years or between 60 and 64 years the job-plan and mandatory activation starts after 6 months of unemployment (cf. below).

The mandatory activation continues, until the unemployed person gets a job or loses the entitlement to unemployment insurance benefits after four years of unemployment. Hereafter he/she can apply for means-tested cash benefits (social assistance) and will be subject to the regime of a non-insured unemployed as described below.

#### *A non-insured unemployed*

A non-insured person who wants to apply for cash-benefits due to unemployment must report in person to the local jobcentre for an interview. Here it will be decided, whether the individual has a potential for getting into employment, and whether the person is eligible for benefits (the means testing).<sup>3</sup> If the person is considered eligible for cash benefits as an unemployed, he/she will have to fill in a CV for the job-bank along the same lines as an insured unemployed (that is after three weeks). The CV will have to be checked regularly by the unemployed in order to prove the availability for work.

For a non-insured unemployed there will also be regular interviews with the jobcentre; the first interview takes place after one month of unemployment. The exact interval between the interviews is however not formally stipulated.

For the non-insured unemployed there is furthermore a right and duty to take part in active measures, although the rules differ somewhat from those for the insured unemployed, leaving some freedom for the local initiative of the municipalities. By example some municipalities practice what is labelled “instant activation” for some groups (e.g. young unemployed) and thus enrolls them in a mandatory programme from their very first day of unemployment. However in general, the timing of the mandatory offers is similar to those for the insured unemployed. Thus a person aged 30 years or more is obliged to take part in active programmes after 9 months of unemployment. Thereafter the person is obliged to take part in an active programme every 6 months.

If a person is absent from activation or refuses to take a job, cash-benefits are reduced by one third and – in case of recurring refusals – may be cancelled altogether.

## **5.2. Unemployed young persons**

#### *Members of an unemployment insurance fund*

Since a reform in 1996 there has in Denmark been a special regime for young unemployed members of an unemployment insurance fund. The main principle behind the reform was that young unemployed (originally aged less than 25 years) and having no vocational education were given a mandatory offer of 18 months education after six months of unemployment. During this period they would receive an income support equal to 50 percent of their normal unemployment insurance benefit. Alternatively they could give up the benefit and enrol in a normal education receiving the standard public student's grant, which amount to about 40 percent of unemployment insurance benefits. The aim of the reform was of course to provide an incentive for young unskilled persons to get a formal vocational education instead of receiving the relatively high benefits in the unemployment insurance system.

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<sup>3</sup> If the person is not assessed as being employable, he/she may still be eligible for cash-benefits and may also take part in various activities to improve the chances of getting a job. However, the person is not registered as an unemployed per se.

The reform proved to be a success measured by a noticeable reduction in youth unemployment and the main traits of the reform are still intact today. However the age limit (with some qualifications) has now been extended to cover all unemployed aged less than 30 years.

Thus a young person, who becomes unemployed, will at first be subject to the same offers and obligations as an older unemployed (cf. above). However, young persons aged less than 30 years and not having a vocational education will after 6 months of unemployment get a job-plan, which will contain a plan for the education that the person will have to undertake, either as a special 18-months education or as a normal vocational education. For those aged 24 or less, their unemployment benefit will furthermore be reduced by 50 percent after 6 months without regard to whether they have children or not.

#### *A non-insured young unemployed*

In 1998 the cash-benefit system for young unemployed was also reformed along the lines of the unemployment benefit system for the insured young persons. Thus during the first six months of unemployment a non-insured young unemployed person with no children will receive a cash benefit equal to 64 percent of the cash benefit for persons aged 25 and more (with no children). After 6 months of unemployment, the cash benefit for the persons aged 24 years or less is reduced to 54 percent of the benefit for those aged 25 years and more. This makes the benefit equal to the public student's grant.

Apart from this the young non-insured unemployed will be subject to an activation regime, which in many ways is similar to that for the insured young unemployed, leaving however some discretion to the local authorities (including for instance the use of "instant activation" to young unemployed recipients of cash benefits). Furthermore, a person aged less than 30 years will as the main rule become subject to mandatory activation after no more than 13 weeks of unemployment. The duration of activation depends on the educational background of the individual. If the person has no vocational education, the activation will last for 18 months (at least 30 hours per week). If the person has a vocational education, activation shall last for at least 6 months (at least 30 hours per week).

### **5.3 Lone mothers with small children**

A characteristic feature of Danish labour market policy is that the family situation of the unemployed plays a very limited role. For the insured unemployed, the family situation is completely irrelevant in the sense that the size of unemployment benefits and the activation regime is independent of, whether the unemployed is single, cohabitant or married and of the number of children.

For the non-insured unemployed, the family situation plays a role for the calculation of the cash benefits, which differ according to whether the person has dependent children or not. Thus for a single person aged 25 years and more, cash benefits amount to 9,905 DKK (1330 Euro) per month, while a person with dependent children will receive 12,629 DKK (1695 Euro) per month (2009).

Also for the lone mothers with children receiving cash benefits, the activation regime will in principle be the same as for women (and men) without children. This does of course not preclude that the municipalities may target some programmes at this specific group, but this will be up to the discretion of the local authorities.

## **6. Perspectives on labour market policy in Denmark**

The Danish development of the welfare state and labour market points towards an interesting hybrid between the flexible, liberal welfare states characterised by high numerical flexibility (liberal hiring-and-firing rules) and the generous Scandinavian welfare regimes of high benefit levels. The hybrid model manages to reconcile the dynamic forces of the free market economy with the social security of the Scandinavian welfare states. This model is a result of a long evolutionary development and is supported by relatively stable institutions and class compromises.

Given its long history and development through an ongoing process of political compromises with strong elements of path dependency, it is not surprising that the Danish system of social insurance and labour market policy has developed into a rather complex structure. However, its main traits can be summed up as follows.

Firstly the system still reflects a basic division between those workers that are members of the UI-funds and those that are not. The first group is under the auspices of a basically state-run system, while the latter are taken care of by the municipalities. With the latest reforms from 2007 and 2009, the borders between the two systems are weakening (especially with respect to active labour market programmes), but will remain especially, when it comes to the benefit side.

For the insured unemployed the demand for insurances is basically individual in the sense that the choice to become a member of a fund is a choice made by each worker. Given the strong links between the UI-funds and the trade unions, there is however a solid element of collectiveness in the system due to the fact that the membership of the fund and the union is conceived as a package, although formally being independent of each other. For this reason, the position of the UI-funds close to the unions is often taken as an explanation of the high degree of unionisation on the Danish labour market.

Also, the financing of the unemployment benefits for the insured unemployed is based mainly on the state (through general taxation), thus giving the benefits the character of a public transfer income, although distributed through private organisations (the UI-funds). Given that membership contributions are unrelated to risks of becoming unemployed, there are no actuarial elements in the system.

For the non-insured unemployed, which either do not fulfil the membership criteria for the UI-funds or have chosen not to become members, the (means-tested) benefits are financed through general taxation (central and local) and administered by the municipalities.

The provision of employment services is a public task, although private service providers can enter as sub-contractors for the public agencies (central or local). The state-run public employment service is mainly responsible for the insured unemployed, while the group of non-insured unemployed is the responsibility of the municipalities. From 2007, a more integrated system has been implemented. However, as mentioned, the benefit-side is still based on a two-tier system.



### *A model of flexicurity*

Furthermore, one can highlight that recent studies and policy discourses has put increasing emphasis on the interplay between the different elements of the system of social security and labour market policy, pointing to the manner in which it is characterised by virtues circles between an extending safety net provided by social security and active labour market policies on the one hand, and a low level of individual employment protection on the other. Under the heading of “flexicurity”, the Danish labour market model is cast in terms of a well-functioning relationship between a flexible labour market, unemployment insurance, low employment protection and ALMP in the following configuration (Bredgaard et al, 2006):

- A flexible labour market with a *high level of external numerical flexibility* indicated by high levels of worker flows in and out of employment and unemployment;
- A *low level of employment protection*, allowing employers to adapt the workforce to changing economic conditions, makes the high degree of numerical flexibility possible.
- A *generous system of income support for the unemployed*
- *Active labour market policies* aimed a upgrading the skills of those unemployed, that are unable to return directly from unemployment to a new job

The Danish labour market model is therefore illustrated by a ‘golden triangle’, cf. figure 3 (Madsen, 2006). The model combines high mobility between jobs with a comprehensive social safety net for the unemployed and an active labour market policy. As mentioned above, the job-to-job mobility (measured by average tenure) is remarkable high in an international comparison. The high degree of mobility from employer to employer is linked to the relatively modest level of job protection in the Danish labour market. Another reason could also be higher risk willingness among workers due to the comprehensive social safety net and probably also the low stigmatising effects of social security in Denmark.

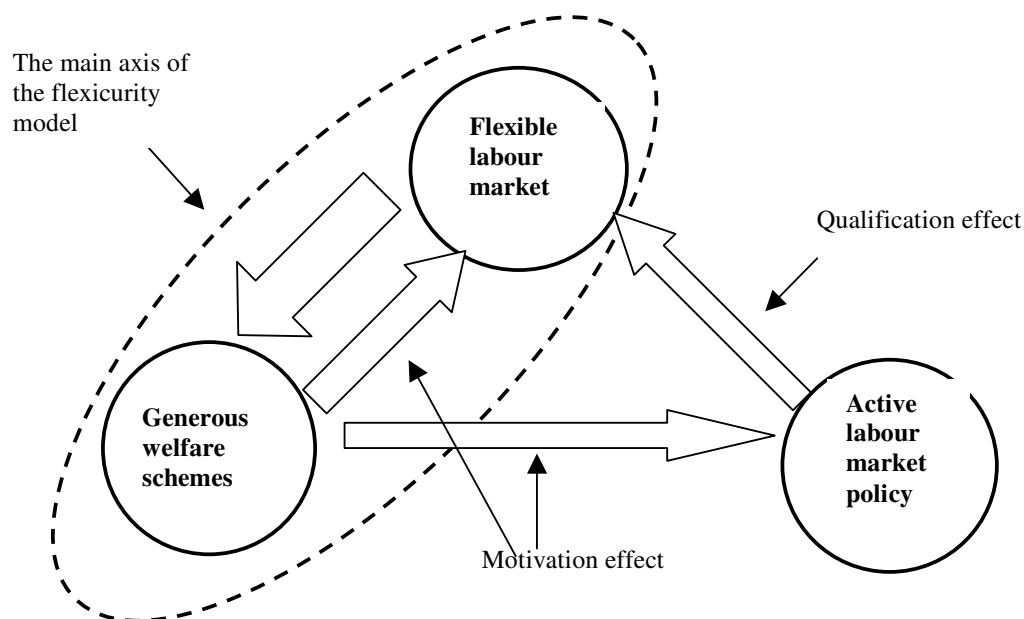
Despite one of the lowest levels of job protection among OECD-countries (Venn, 2009), Danish workers have a feeling of high job security among all subgroups of workers (Auer and Casez 2003). Also a Eurobarometer survey reported in 2006 that a majority of more than 70 percent of the Danes found it a good thing to change jobs every few years (Eurobarometer, 2006).

The arrows between the corners of the triangle in figure 3 illustrate flows of people. Even if the unemployment rate is low in an international perspective, a large share of around 20 percent of the workforce becomes unemployed each year. But the majority of these unemployed persons manage to find their own way back into a new job. Those who become long-term unemployed end up in the target group for the active labour market policy, which – ideally – helps them to find employment again. The model illustrates two of the most important effects in this connection. On the one hand, as a result of the active measures, the participants in various programmes (e.g. job training and education) are upgraded and therefore improve their chances of getting a job. This reflects the “qualification effect” of ALMP.

On the other hand, the measures can have a motivational (or threat) effect in that unemployed persons, who are approaching the time, when they are due for activation, may intensify their search for ordinary jobs, in case they consider activation a negative prospect. Thus one effect of labour market policy will be to influence the flow from unemployment

benefits back to work, also for those unemployed, who do not actually participate in the active measures. A recent study has in fact argued that this motivational effect accounts for the major part of the macro-effect of ALMP (Rosholm & Svarer, 2004).

*Figure 3: The Danish flexicurity model (Madsen, 2006)*



The social safety net in the shape of unemployment benefit and cash benefits for the unemployed together with the high flexibility form the main axis of the model, in the sense that both elements have been characteristic of the Danish labour market for many years. Recognition of the employers' right to hire and fire at will date back to the September Compromise of 1899. Danish labour market parties here entered into an agreement that focused on labour market disputes and how to solve them, as well as the appropriate role of organisations in the system. This established centralised negotiations and mechanisms for resolving disputes also laid the foundation for the practice of self-regulation by labour market parties in most matters of importance to the labour market.

The Danish development of the welfare state and labour market points towards an interesting hybrid between the flexible, liberal welfare states characterised by high numerical flexibility (liberal hiring-and-firing rules) and the generous Scandinavian welfare regimes of high benefit levels. The hybrid model manages to reconcile the dynamic forces of the free market economy with the social security of the Scandinavian welfare states. This model is a result of a long evolutionary development and is supported by relatively stable institutions and class compromises.

Both in the international as well as in the Danish debate there has, from time to time, been a tendency to jump to the conclusion: that the macro-economic success of the last decade is a

result of the specific flexicurity model as just described. It is, however, essential to point out that the positive development in the Danish labour market since the early 1990s is not attributable exclusively to the Danish flexicurity model. Without a successful balancing of the macroeconomic policy and the trends in the international business cycle, the growth in employment and the falling unemployment would not have been possible. The coinciding of low inflation and a halving of registered unemployment rates is also a by-product of a new agenda for collective bargaining and wage formation, which helped the labour market adjust to the shift from high unemployment to full employment while keeping wage increases at a moderate level and not departing from the international trend towards low inflation. This agenda developed gradually during the 1980s and was formalized by a joint declaration of the social partners on 1987, where they stated that they would take the international competitiveness and macro-economic balance of the Danish economy into account during wage-negotiations.

#### *Upstairs and downstairs in the Danish model*

Finally one may consider the issue of winners and loser in the much appraised Danish model of flexicurity (Madsen, forthcoming). Here, the main groups of winners appear to be large groups of salaried workers, skilled workers and also some unskilled groups. In general, the model provides easier access to a standard employment contract and thus a minor role for temporary workers and agencies.

On the other hand, the main groups of losers on the Danish labour market are indicated by the general growth in the number of adults receiving transfer incomes. This group may not all be in risk of absolute or relative poverty. But they will in many cases suffer from social exclusion due to the important role of working life as a road to social integration in Denmark.

The groups mostly in risk of becoming marginalized are thus immigrants from non-Western countries, some unskilled groups, older workers and persons with health problems. However it is unclear, whether the Danish version of flexicurity in itself is the cause of these exclusionary elements in the Danish employment system. Thus one can argue that a lower level of employment protection has the role of creating winners also among the weaker groups on the labour market due to lower barriers to enter employment. With easier access to dismissing their employees, the employers will also be less reluctant to hire workers, who have had some troubles in their labour market career like long-term unemployment, health problems etc.

Furthermore, within the framework of the Danish model, active labour market policy and policies to support adult education and training has the role of improving the employability for those groups that are in danger of becoming marginalized. One may see these institutional arrangements also as counterbalancing the risk of firms providing less continued education and training to their employees, due to the risk of losing their human capital investments with employees leaving their jobs.

Looking finally and briefly on the employer's side of the labour market, the main winners in the Danish model will be those firms that experience frequent fluctuations in demand (e.g. within the tourism industry) and the smaller firms, for whom less numerical flexibility could imply higher costs due to the facts that their possibility to apply other forms of flexibility will probably be less than for larger companies.

### *Challenges ahead*

Taking a longer-term perspective, a number of problems may be identified which could increase the forces that are already causing a rise in the number of persons excluded from the Danish labour market (Bredgaard et al, 2006). These include:

- The demographic changes over the coming decades, which imply a growth in the number of older workers, with higher risks of becoming marginalized.
- The rising share of immigrants in the Danish population, with the proportion of persons from non-European countries rising from about 4 per cent today to about 8 per cent in 2020.
- The increasing wage competition from low-wage countries, also within Europe, which have been amplified due to the entry of a number of Eastern European countries into the European Union.

These challenges to the Danish model will place the need to reduce the upward trend in the numbers of persons left outside the flexicurity triangle high on the Danish political agenda in coming years. To these challenges one can add the uncertain impacts of the present reforms of the model involving a new structure of governance with respect to labour market policy, which were discussed in section 3 above.

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